

Single Audit Report

MARION T. ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware

Year Ended June 30, 2006

MARION T. ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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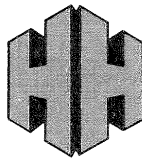
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Report of Independent Auditor

To the School Board and President
Marion T. Academy Charter School
Wilmington, Delaware

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School (a component unit of the State of Delaware) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of June 30, 2006 and 2005, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2006 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary information on page 20 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The School has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Marion T. Academy Charter School's basic financial statements. The additional information on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information on pages 21 and 22 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.


Certified Public Accountants

November 20, 2006
Wilmington, Delaware

Basic Financial Statements Section

MARION T. ACADEMY CHARTER SCHOOL
STATEMENTS OF NET ASSETS
June 30, 2006 and 2005

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 964,710	\$ 625,649
Cash held by escrow agent	...	694,919
Accounts receivable, net	6,092	21,597
Due from other governments	76,509	19,805
Total current assets	<u>1,047,311</u>	<u>1,361,970</u>
NONCURRENT ASSETS		
Capital assets:		
Nondepreciable	100,000	100,000
Depreciable, net of depreciation	3,750,895	3,857,554
Loan origination fees, net of amortization	11,550	13,650
Total noncurrent assets	<u>3,862,445</u>	<u>3,971,204</u>
TOTAL ASSETS	<u>4,909,756</u>	<u>5,333,174</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	234,336	46,006
Accrued salaries and related costs	388,732	319,662
Long-term liabilities due within one year	80,762	707,733
Total current liabilities	<u>703,830</u>	<u>1,073,401</u>
NONCURRENT LIABILITIES		
Long-term liabilities due after one year	2,595,302	2,676,064
Compensated absences liability	19,498	15,960
Total noncurrent liabilities	<u>2,614,800</u>	<u>2,692,024</u>
TOTAL LIABILITIES	<u>3,318,630</u>	<u>3,765,425</u>
NET ASSETS (LIABILITIES)		
Invested in capital assets, net of related debt	1,186,381	1,219,244
Restricted per mortgage agreement	...	694,919
Restricted contributions for plaque	4,000	4,000
Restricted for capital improvements	200,000	...
Restricted for specific programs	33,878	3,214
Unrestricted	166,867	(353,628)
TOTAL NET ASSETS	<u>\$ 1,591,126</u>	<u>\$ 1,567,749</u>

The accompanying notes are an integral
part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 3,861,617	\$...	\$ 443,902	\$ 52,335	\$ (3,365,380)
Supporting services:					
Operation and maintenance of facilities	502,947	...	...	200,000	(302,947)
Transportation	342,883	...	...	...	(342,883)
School Food services	222,278	11,499	139,775	...	(71,004)
Interest on long-term debt	169,832	...	...	...	(169,832)
Depreciation and amortization-unallocated	108,759	...	...	...	(108,759)
Total Charter School	\$ 5,208,316	\$ 11,499	\$ 583,677	\$ 252,335	(4,360,805)
GENERAL REVENUES					
Charges to school districts					1,434,725
State aid not restricted to specific purpose					2,824,960
Earnings on cash and equivalents					33,093
Miscellaneous revenues					9,567
Cancellation of debt obligations (Note 10)					81,837
Total general revenues					4,384,182
CHANGE IN NET ASSETS					23,377
NET ASSETS					
Beginning of year					<u>1,567,749</u>
End of year					<u>\$ 1,591,126</u>

The accompanying notes are an integral part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenues and
		Services	Grants and	Grants and	Changes In
			Contributions	Contributions	Net Assets
					Total
					Governmental
					Activities
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ 3,770,276	\$...	\$ 525,640	\$...	\$ (3,244,636)
Supporting services:					
Operation and maintenance of facilities	467,318	...	...	...	(467,318)
Transportation	363,630	...	...	...	(363,630)
School Food services	200,186	14,168	75,275	...	(110,743)
Interest on long-term debt	187,877	...	...	...	(187,877)
Depreciation and amortization-unallocated	<u>123,071</u>	<u>...</u>	<u>...</u>	<u>...</u>	<u>(123,071)</u>
Total Charter School	\$ 5,112,358	\$ 14,168	\$ 600,915	\$...	<u>(4,497,275)</u>
GENERAL REVENUES					
Charges to school districts					1,630,250
State aid not restricted to specific purpose					2,855,268
Earnings on cash and equivalents					19,208
Miscellaneous					<u>8,920</u>
Total general revenues					<u>4,513,646</u>
CHANGE IN NET ASSETS					16,371
NET ASSETS					
Beginning of year					<u>1,551,378</u>
End of year					<u>\$ 1,567,749</u>

The accompanying notes are an integral part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL
BALANCE SHEETS-GOVERNMENTAL FUNDS
June 30, 2006 and 2005

	2006			2005		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
ASSETS						
Cash and equivalents	\$ 660,796	\$ 303,914	\$ 964,710	\$ 494,929	\$ 130,720	\$ 625,649
Cash held by escrow agent	...	...	...	...	694,919	694,919
Accounts receivable, net	6,092	...	6,092	5,972	15,625	21,597
Due from other governments	<u>76,509</u>	<u>...</u>	<u>76,509</u>	<u>19,805</u>	<u>...</u>	<u>19,805</u>
TOTAL ASSETS	<u>\$ 743,397</u>	<u>\$ 303,914</u>	<u>\$ 1,047,311</u>	<u>\$ 520,706</u>	<u>\$ 841,264</u>	<u>\$ 1,361,970</u>
LIABILITIES						
Accounts payable	\$ 234,336	\$...	\$ 234,336	\$ 46,006	\$...	\$ 46,006
Accrued salaries and related costs	<u>388,732</u>	<u>...</u>	<u>388,732</u>	<u>319,662</u>	<u>...</u>	<u>319,662</u>
Total liabilities	<u>623,068</u>	<u>...</u>	<u>623,068</u>	<u>365,668</u>	<u>...</u>	<u>365,668</u>
FUND BALANCES						
Reserved for encumbrances	7,675	...	7,675	...	...	...
Reserved per mortgage agreement	...	...	...	...	694,919	694,919
Reserved contributions for plaque	...	4,000	4,000	...	4,000	4,000
Reserved for capital improvements	...	200,000	200,000	...	...	...
Reserved for specific programs	33,878	...	33,878	3,214	...	3,214
Unreserved	<u>78,776</u>	<u>99,914</u>	<u>178,690</u>	<u>151,824</u>	<u>142,345</u>	<u>294,169</u>
Total fund balances	<u>120,329</u>	<u>303,914</u>	<u>424,243</u>	<u>155,038</u>	<u>841,264</u>	<u>996,302</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 743,397</u>	<u>\$ 303,914</u>	<u>\$ 1,047,311</u>	<u>\$ 520,706</u>	<u>\$ 841,264</u>	<u>\$ 1,361,970</u>

The accompanying notes are an integral part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL

RECONCILIATION OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS

TO THE STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	2006	2005
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances-governmental funds	\$ 424,243	\$ 996,302
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. The cost of capital assets is \$4,366,421 for 2006 and \$4,366,421 for 2005. The related accumulated depreciation is \$515,526 for 2006 and \$408,867 for 2005.	3,850,895	3,957,554
Loan origination fees are reported as expenditures in the governmental funds. The total cost is \$14,000 for 2006 and \$14,000 for 2005 and the related accumulated amortization is \$2,450 for 2006 and \$350 for 2005.	11,550	13,650
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	(2,676,064)	(3,383,797)
Compensated absences are not due and payable in the current period and therefore are not reported in the governmental funds.	(19,498)	(15,960)
Total net assets-governmental activities	<u>\$ 1,591,126</u>	<u>\$ 1,567,749</u>

The accompanying notes are an integral part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS**

Years Ended June 30, 2006 and 2005

	2006			2005		
	General Fund	Capital Projects	Total Governmental Funds	General Fund	Capital Projects	Total Governmental Funds
REVENUES						
Charges to school districts	\$ 1,434,725	\$...	\$ 1,434,725	\$ 1,630,250	\$...	\$ 1,630,250
State aid	2,886,967	...	2,886,967	2,855,268	...	2,855,268
Federal aid	381,895	...	381,895	447,161	...	447,161
Earnings on cash and equivalents	30,053	3,040	33,093	13,451	5,757	19,208
School Food services	151,274	...	151,274	89,443	...	89,443
Contributions	52,335	200,000	252,335	78,479	...	78,479
Miscellaneous	9,567	...	9,567	8,795	125	8,920
Total revenues	<u>4,946,816</u>	<u>203,040</u>	<u>5,149,856</u>	<u>5,122,847</u>	<u>5,882</u>	<u>5,128,729</u>
EXPENDITURES						
Current:						
Instructional services	3,845,064	...	3,845,064	3,653,459	12,611	3,666,070
Supporting services:						
Operating & maintenance of facilities	502,947	...	502,947	467,318	...	467,318
Transportation	342,883	...	342,883	363,630	...	363,630
School Food services	222,278	...	222,278	200,186	...	200,186
Capital outlay	13,015	...	13,015	31,793	39,557	71,350
Debt service:						
Principal	75,896	550,000	625,896	93,659	1,635,266	1,728,925
Interest and other charges	169,832	...	169,832	153,974	33,903	187,877
Total expenditures	<u>5,171,915</u>	<u>550,000</u>	<u>5,721,915</u>	<u>4,964,019</u>	<u>1,721,337</u>	<u>6,685,356</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	<u>(225,099)</u>	<u>(346,960)</u>	<u>(572,059)</u>	<u>158,828</u>	<u>(1,715,455)</u>	<u>(1,556,627)</u>
OTHER FINANCING SOURCES (USES)						
Interfund transfers in (out)	190,390	(190,390)	...	392,027	(392,027)	...
Proceeds from long-term financing	...	...	...	...	2,755,145	2,755,145
Total other financing sources (uses)	<u>190,390</u>	<u>(190,390)</u>	<u>...</u>	<u>392,027</u>	<u>2,363,118</u>	<u>2,755,145</u>
NET CHANGE IN FUND BALANCES	<u>(34,709)</u>	<u>(537,350)</u>	<u>(572,059)</u>	<u>550,855</u>	<u>647,663</u>	<u>1,198,518</u>
FUND BALANCES (DEFICIT)						
Beginning of year	<u>155,038</u>	<u>841,264</u>	<u>996,302</u>	<u>(395,817)</u>	<u>193,601</u>	<u>(202,216)</u>
End of year	<u>\$ 120,329</u>	<u>\$ 303,914</u>	<u>\$ 424,243</u>	<u>\$ 155,038</u>	<u>\$ 841,264</u>	<u>\$ 996,302</u>

The accompanying notes are an integral part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
Years Ended June 30, 2006 and 2005

	2006	2005
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances-total governmental funds	\$ (572,059)	\$ 1,198,518
Government funds report capital outlay as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$15,000 are capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These are the amounts by which depreciation exceeded capital outlay.		
	2006	2005
Capital Outlay	\$...	\$...
Depreciation Expense	(106,659)	(106,661)
	(106,659)	(106,661)
The governmental funds report loan proceeds as an other financing source, while repayment of loan principal is reported as an expenditure. Also, governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term liabilities and related items is as follows:		
	2006	2005
Long-term financing:		
Proceeds	\$...	\$ (2,800,000)
Principal payments	625,896	1,723,794
Forgiveness of debt	81,837	...
Loan origination fees:		
Amortization	(2,100)	(16,410)
Refinancing fees paid	...	14,000
	705,633	(1,078,616)
Capital assets acquired by capital lease are shown as expenditures and other financing sources in the governmental funds. The principal payments must be removed from the statement of activities and applied to the lease liability.	...	5,131
In the statement of activities, certain operating expenses such as compensated absences for vacations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Compensated absences liability increased by \$3,538 for 2006 and \$2,001 for 2005.	(3,538)	(2,001)
Change in net assets (liabilities)-gov'tal activities	\$ 23,377	\$ 16,371

The accompanying notes are an integral part of the basic financial statements

MARION T. ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Marion T. Academy Charter School (the "School") have been prepared in conformity with U.S. generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the School are described below.

Reporting Entity

The School is the primary government and is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State's operations. The School has no component units for which it is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report the financial information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include charges to students or other third parties who purchase or directly benefit from goods and services provided, and grants and contributions that are restricted to meeting the operating or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The **government-wide financial statements** are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to school districts are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MARION T. ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The **governmental fund financial statements** are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, early retirement, and postemployment healthcare benefits, are recorded only when payment is due.

Charges to school districts and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental funds:

- The **general fund** is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
- The **capital projects fund** accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities, and procurement of equipment necessary for providing educational programs for all students within the School.

Amounts reported as program revenues include 1) charges to students for special fees, material, supplies, or services provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Encumbrances

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Equivalents

The School's cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable. At June 30, 2006 and 2005, the allowance for doubtful accounts is \$0 and \$112,917, respectively.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivable/payable" (i.e., current portion) or "advances from/to other funds" (i.e., the noncurrent portion). At June 30, 2006 and 2005, the School had no such activity.

Advances between funds, in the fund financial statements, when present as reported are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Capital Assets and Depreciation

Capital assets, which include building and improvements, are reported in the government-wide financial statements. The School defines capital assets as stated in the State of Delaware, Department of Finance, Division of Accounting, (III-A) *Fixed Asset Capitalization Policy*. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extends the life of an asset is not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. The interest cost incurred during construction is not capitalized.

Building and improvements are depreciated using the straight-line method over their estimated lives ranging between 3 to 40 years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan Origination Fees

At June 30, 2006 and 2005, the loan origination fees of \$14,000 are being amortized over the ten-year life of the mortgage note using the straight-line method. The accumulated amortization at June 30, 2006 and 2005 was \$2,450 and \$350, respectively. The loan origination fees of \$31,250 were written-off during fiscal year 2005 since the note was refinanced. The loan origination fees were being amortized over the life of the term note using the straight-line method, of which \$15,190 was the accumulated amortization prior to the write-off of \$16,060.

Compensated Absences Liability

Vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental funds only if the amounts have matured, for example, as a result of employee resignations and retirements.

Vacation - Twelve month employees receive 12 days per year. Unused vacation cannot be carried over to succeeding years. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

Sick Leave - Sick leave allowances are as follows: 10 days for 10-month instructional staff employees, and 6 days for 12-month employees. Any unused sick days shall be accumulated to the employee's credit not to exceed 42 days.

Long-Term Obligations

In government-wide financial statements, long-term debt obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognize the principal portion of the payments as expenditures.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

MARION T. ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND EQUIVALENTS

At June 30, 2006 and 2005, the School has cash and equivalents of \$658,772 and \$493,907, respectively. Cash and equivalents are controlled by the personnel of the State Treasurer's Office in Dover, Delaware and any investment decisions are made by the State Treasurer's Office. The deposits held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the financial stability of the State.

The capital projects fund is in the custody of School officials. At June 30, 2006 and 2005, these deposits were held by one financial institution. These deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits totaling \$306,006 (book balance of \$305,938) and \$826,717 (book balance of \$826,661) held by the financial institution were in excess of FDIC insurance limits in the amount of \$203,633 and \$597,247, respectively, and therefore, are exposed to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30 follows:

Year Ended June 30, 2006				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	\$ 100,000	\$...	\$...	\$ 100,000
Total capital assets	100,000	...	...	100,000
Capital assets, being depreciated:				
Building and improvements	4,266,421	...	...	4,266,421
Less accumulated depreciation:				
Building and improvements	408,867	106,659	...	515,526
Total capital assets	3,857,554	(106,659)	...	3,750,895
Governmental activities				
Capital assets, net	\$3,957,554	\$ (106,659)	\$...	\$3,850,895

Year Ended June 30, 2005				
Description	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, not depreciated:				
Land	\$ 100,000	\$...	\$...	\$ 100,000
Total capital assets	100,000	...	...	100,000
Capital assets, being depreciated:				
Building and improvements	4,266,421	...	...	4,266,421
Less accumulated depreciation:				
Building and improvements	302,206	106,661	...	408,867
Total capital assets	3,964,215	(106,661)	...	3,857,554
Governmental activities				
Capital assets, net	\$4,064,215	\$ (106,661)	\$...	\$3,957,554

MARION T. ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LONG-TERM DEBT OBLIGATIONS

The summary of changes in the long-term debt obligations follows:

Description	Year Ended June 30, 2006				
	Long-Term Obligations				Due Within One Year
	Beginning Balance	Additions	Deletions	Ending Balance	
Governmental activity:					
General obligations:					
Promissory Note	\$ 451,589	\$...	\$ 451,589	\$...	\$...
Promissory Note	180,248	...	180,248	...	...
Mortgage Note	<u>2,751,960</u>	<u>...</u>	<u>75,896</u>	<u>2,595,302</u>	<u>80,762</u>
Subtotals	3,383,797	...	707,733	2,595,302	80,762
Other long-term debt:					
Compensated absences	<u>15,960</u>	<u>3,538</u>	<u>...</u>	<u>19,498</u>	<u>...</u>
Totals	\$3,399,757	\$ 3,538	\$ 707,733	\$2,614,800	\$ 80,762

Compensated absences for governmental activities are generally liquidated by the general fund.

At June 30, the principal maturities of long-term debt obligations consist of the following:

Description	2006	2005
Promissory note to the former management company in the amount of \$402,647 carrying an annual interest rate of 6.00%. Effective July 1, 2002, the note called for interest to be accrued for 24 months at which time the balance would be \$451,589. Effective July 1, 2004, the note called for interest only payments of \$2,258 for 48 months. The note was unsecured and payable on July 1, 2008. The note was settled during October of 2005.	\$...	\$ 451,589
Promissory note to the former management company in the amount of \$169,776 carrying an annual interest rate of 6.00%. Effective July 1, 2003, the note called for interest to be accrued for 12 months at which time the balance would be \$180,248. Effective July 1, 2004, the note called for interest only payments of \$901 for 48 months. The note was unsecured and payable on July 1, 2008. The note was settled during October of 2005.	...	180,248
Subtotals (carried forward)	...	631,837

MARION T. ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - LONG-TERM DEBT OBLIGATIONS (continued)

Description	2006	2005
Subtotals (brought forward)	\$...	\$ 631,837

Mortgage note to a multibank community development corporation in the amount of \$2.8 million with an annual interest rate of 6.23%, and a maturity date of October 1, 2014. The mortgage note was issued for the purpose of refinancing existing debt obligations. The note carries a term of 10 years and is payable in equal monthly installments of \$20,433 based on a 20 year amortization period. The note is secured with a first mortgage lien on real property located at 1121 Thatcher Street, Wilmington, Delaware, and a first security interest in all fixtures, furnishings, equipment, receivables, inventory, contract rights, insurance proceeds, condemnation payments, and tangible and intangible personal property of the School.

Total debt obligations	<u>2,676,064</u>	<u>2,751,960</u>
Less: Current portion	<u>80,762</u>	<u>707,733</u>
Long-term portion	<u>\$2,595,302</u>	<u>\$2,676,064</u>

The amount of interest costs to be capitalized are based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance a capital asset. Total interest incurred was \$85,242 for 2006 and \$166,768 for 2005, all of which was charged to operations.

Maturities of long-term debt obligations, including interest, are:

Fiscal Years Ending June	Principal	Interest	Total
2008	\$ 85,939	\$ 159,261	\$ 245,200
2009	91,449	153,751	245,200
2010	97,312	147,888	245,200
2011	103,550	141,650	245,200
2012	110,189	135,011	245,200
2013-2015	<u>2,106,863</u>	<u>286,767</u>	<u>2,393,630</u>
Long-term portion of debt	<u>\$2,595,302</u>	<u>\$1,024,328</u>	<u>\$3,619,630</u>

MARION T. ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Amounts due from other governmental units represent receivables for revenues earned by the School or collections made by another governmental unit on its behalf. At June 30, intergovernmental receivables are as follows:

Description	2006	2005
Passed through the State of Delaware:		
Local school districts	\$...	\$ 112,917
Federal government	<u>76,509</u>	<u>19,805</u>
Total intergovernmental receivables	76,509	132,722
Less: Allowance for doubtful accounts-Local	<u>...</u>	<u>112,917</u>
Total intergovernmental receivables, net	<u>\$ 76,509</u>	<u>\$ 19,805</u>

NOTE 6 - PENSION PLAN

School employees are considered State employees and are covered under the State's pension program. The State contributed 7.44% for 2006 and 2005 of the State share of the employees' salary. The School contributed the same percentages on the local share of the salary. The employees contribute 3.00% of salary in excess of \$6,000 per share up to social security maximum and 3.00% for any salary above social security maximum. Total pension cost of \$319,307 for 2006 and \$241,404 for 2005 (State share) and \$5,846 for 2006 and \$68,516 for 2005 (local share) is included in the financial statements. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service-age 55 (reduced by 0.2%, each month under age 60)
 - b. 25 years service-any age (reduced by 0.2%, each month short of 30 years)
- Service retirement:
 - a. 15 years service-age 60
 - b. 30 years service-any age
 - c. 5 years service-age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension-An employee can vest pension rights after five years of service.

The State's pension program is a defined benefit plan. More information on this plan is available in the State of Delaware Public Employee Retirement System (DPERS) *Comprehensive Annual Report*. This report may be obtained by writing DPERS at Suite 1, Mc Ardle Building, 860 Silver Lake Boulevard, Dover, Delaware 19904 or by calling 1-800-722-7300.

NOTE 7 - LEASING ARRANGEMENT

The School leases a 20,000 square feet building containing eight classrooms, improvements, equipment and fixtures located at 1201 Northeast Boulevard, Wilmington, Delaware. The term of the lease calls for rental to commence September 1, 2003 and ending August 31, 2013 with a renewal option for one additional term of 5 years. Because of extensive renovations, the School did not occupy the building until September 1, 2004. Base rent shall be increased July 1 by the lessor of 5% of the base rent for the previous calendar year or the percentage increase in the Consumer Price Index (CPI). At any time during the term of this lease the School has the right and option to purchase the premises for \$2,941,000 with an annual increase of 5% to the base amount. The lease calls for annual base rental payments of \$216,000. At June 30, 2006 and 2005, total rental expense was \$245,700 and \$233,300, respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Nehemiah Gateway Community Development Corporation (NGCDC), a nonprofit corporation, provides food services to the School. The NGCDC Board president is also the Board president of the School. Also, the Chief Administrative Officer of the School is the NGCDC Board treasurer. At June 30, 2006 and 2005, the School paid food service costs of \$0 and \$44,255, respectively.

The vice-president of the School Board is also the Board secretary of Innovative Schools Development Corporation (ISDC), a nonprofit corporation. ISDC provides consulting services to the School which commenced during fiscal year 2004. At June 30, 2006 and 2005, the School paid ISDC \$176,432 and \$149,333, respectively.

The vice-president of the School Board is related by marriage to a shareholder of a law firm hired by the School. At June 30, 2006 and 2005, total legal fees billed to the School by the law firm were \$11,182 and \$35,048, respectively.

NOTE 9 - DEFICIT FUND EQUITY

At June 30, 2004, the governmental funds had a deficit of \$202,216. The deficit was eliminated during fiscal year 2005 through the adoption of cost controlling measures, and refinancing of its debt obligations to reduce annual debt service payments.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

Grants Activity

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the School. The School's administration believes such disallowance, if any, would be immaterial to the basic financial statements.

Litigation

The School is a defendant in a lawsuit filed by one of its vendors for the non-payment of services rendered. The suit seeks \$59,336 plus interest. A non-binding arbitration is scheduled for April of 2007, and the School intends to defend the case vigorously.

Department of Education

As of May 5, 2006, the School was on probation. The probation requires the School to meet five conditions, conditions which were still pending as of the date of the report.

Management Agreement

On October 5, 2005, the School and Mosaica Education, Inc. (the former management company) reached an agreement to resolve their outstanding dispute (the termination of the management agreement by the School). The settlement resulted in a debt forgiveness of \$81,837 to the benefit of the School.

Required Supplemental Information (RSI) Section

MARION T. ACADEMY CHARTER SCHOOL**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND**
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Charges to school districts	\$ 1,564,471	\$ 1,423,459	\$ 1,434,725	\$ 11,266
State aid	3,081,942	2,697,491	2,886,967	189,476
Federal aid	417,200	467,200	381,895	(85,305)
Earnings on cash and equivalents	10,000	10,000	30,053	20,053
School Food services	150,000	115,846	151,274	35,428
Contributions	...	50,000	52,335	2,335
Miscellaneous	...	...	9,567	9,567
Total revenues	5,223,613	4,763,996	4,946,816	182,820
EXPENDITURES				
Current:				
Salaries	2,356,404	2,241,904	2,198,157	43,747
Employment costs	852,311	794,041	862,130	(68,089)
Travel	24,000	24,000	5,184	18,816
Contracted services	287,500	290,731	436,528	(145,797)
Communications	30,600	29,000	21,199	7,801
Public utility services	80,500	96,500	100,699	(4,199)
Insurance	30,000	30,000	27,488	2,512
Transportation-buses	360,050	383,769	342,883	40,886
Land/Building/Facilities	303,800	279,800	274,158	5,642
Repairs and maintenance	112,000	112,000	128,090	(16,090)
Other contractual services	105,000	106,500	176,300	(69,800)
Supplies and materials	71,000	108,155	39,111	69,044
Operating supplies	98,155	61,892	76,442	(14,550)
Computer/Word Processing/Software	3,000	3,000	2,525	475
Food service costs	150,000	130,846	222,278	(91,432)
Contingency	96,128	...	...	...
Capital outlay	15,000	13,500	13,015	485
Debt service:				
Principal	75,896	75,896	75,896	...
Interest and other charges	169,304	169,304	169,832	(528)
Total expenditures	5,220,648	4,950,838	5,171,915	(221,077)
EXCESS (DEFICIT) OF REVENUES				
OVER EXPENDITURES	2,965	(186,842)	(225,099)	(38,257)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in (out)	...	173,000	190,390	17,390
Total other financing sources (uses)	...	173,000	190,390	17,390
NET CHANGE IN FUND BALANCES	2,965	(13,842)	(34,709)	(20,867)
FUND BALANCES				
Beginning of year	155,038	155,038	155,038	...
End of year	\$ 158,003	\$ 141,196	\$ 120,329	\$ (20,867)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School annually adopts a budget for the general fund financial statements. The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying budgetary comparison schedule for the general fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Material Violations

There were no material violations of the annual appropriated budget for the general fund for fiscal year 2006.

See Accompanying Report of Independent Auditor

Additional Information Section

MARION T. ACADEMY CHARTER SCHOOL
BALANCE SHEETS-GENERAL FUND
June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
ASSETS								
Cash and equivalents	\$ 36,511	\$ 624,285	\$...	\$ 660,796	\$ 5,000	\$ 489,929	\$...	\$ 494,929
Accounts receivable, net	...	6,092	...	6,092	...	5,972	...	5,972
Due from other governments	...	76,509	...	76,509	...	19,805	...	19,805
Interfund receivable (payable)	...	...	...	...	...	...	...	...
TOTAL ASSETS	<u>\$ 36,511</u>	<u>\$ 706,886</u>	<u>\$...</u>	<u>\$ 743,397</u>	<u>\$ 5,000</u>	<u>\$ 515,706</u>	<u>\$...</u>	<u>\$ 520,706</u>
LIABILITIES								
Accounts payable	\$ 1,764	\$ 232,572	\$...	\$ 234,336	\$...	\$ 46,006	\$...	\$ 46,006
Accrued salaries and related costs	364,212	24,520	...	388,732	...	319,662	...	319,662
Total liabilities	<u>365,976</u>	<u>257,092</u>	<u>...</u>	<u>623,068</u>	<u>...</u>	<u>365,668</u>	<u>...</u>	<u>365,668</u>
FUND BALANCES (DEFICIT)								
Reserved for encumbrances	5,059	2,616	...	7,675	...	...	...	...
Reserved for specific programs	...	33,878	...	33,878	...	3,214	...	3,214
Unreserved	(334,524)	413,300	...	78,776	5,000	146,824	...	151,824
Total fund balances (deficit)	<u>(329,465)</u>	<u>449,794</u>	<u>...</u>	<u>120,329</u>	<u>5,000</u>	<u>150,038</u>	<u>...</u>	<u>155,038</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 36,511</u>	<u>\$ 706,886</u>	<u>\$...</u>	<u>\$ 743,397</u>	<u>\$ 5,000</u>	<u>\$ 515,706</u>	<u>\$...</u>	<u>\$ 520,706</u>

See Accompanying Report of Independent Auditor

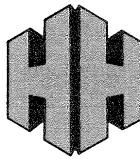
MARION T. ACADEMY CHARTER SCHOOL

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-GENERAL FUND
Years Ended June 30, 2006 and 2005

	2006				2005			
	State Allocation	Local Funds	Federal Funds	Total General Fund	State Allocation	Local Funds	Federal Funds	Total General Fund
REVENUES								
Charges to school districts	\$...	\$ 1,434,725	\$...	\$ 1,434,725	\$...	\$ 1,630,250	\$...	\$ 1,630,250
State aid	2,886,967	...	...	2,886,967	2,855,268	...	...	2,855,268
Federal aid	...	...	381,895	381,895	...	...	447,161	447,161
Earnings on cash and equivalents	...	30,053	...	30,053	...	13,451	...	13,451
Food service revenue	...	11,499	139,775	151,274	...	14,168	75,275	89,443
Contributions	...	52,335	...	52,335	...	78,479	...	78,479
Miscellaneous	...	9,567	...	9,567	...	8,795	...	8,795
Total revenues	2,886,967	1,538,179	521,670	4,946,816	2,855,268	1,745,143	522,436	5,122,847
EXPENDITURES								
Current:								
Salaries	1,690,039	414,477	93,641	2,198,157	1,673,215	269,466	211,278	2,153,959
Employment costs	804,429	18,501	39,200	862,130	654,759	63,972	56,011	774,742
Travel	2,476	2,708	...	5,184	393	1,171	8,176	9,740
Contracted services	68,171	272,122	96,235	436,528	27,989	240,385	40,172	308,546
Communications	12,436	7,503	1,260	21,199	12,521	14,480	262	27,263
Public utility services	41,431	59,268	...	100,699	6,328	68,636	...	74,964
Insurance	20,609	6,879	...	27,488	17,857	6,139	...	23,996
Transportation-buses	84,622	258,261	...	342,883	(8,347)	371,977	...	363,630
Land/Building/Facilities	124,735	149,423	...	274,158	17,956	269,666	...	287,622
Repairs and maintenance	70,047	55,643	2,400	128,090	16,868	87,864	...	104,732
Other contractual services	21,951	34,430	119,919	176,300	1,867	46,134	117,002	165,003
Supplies and materials	21,696	17,415	...	39,111	16,434	31,744	...	48,178
Operating supplies	58,632	(11,430)	29,240	76,442	26,200	94,500	10,152	130,852
Computer/Word Processing/Software	...	2,525	...	2,525	685	10,495	...	11,180
Food service costs	73,424	9,079	139,775	222,278	3,283	121,628	75,275	200,186
Capital outlay	4,134	8,881	...	13,015	5,106	22,579	4,108	31,793
Debt service:								
Principal	37,358	38,538	...	75,896	40,488	53,171	...	93,659
Interest and other charges	85,242	84,590	...	169,832	37,830	116,144	...	153,974
Total expenditures	3,221,432	1,428,813	521,670	5,171,915	2,551,432	1,890,151	522,436	4,964,019
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(334,465)	109,366	...	(225,099)	303,836	(145,008)	...	158,828
OTHER FINANCING SOURCES (USES)								
Interfund transfers in (out)	...	190,390	...	190,390	(301,610)	693,637	...	392,027
Total other financing sources (uses)	...	190,390	...	190,390	(301,610)	693,637	...	392,027
NET CHANGE IN FUND BALANCES	(334,465)	299,756	...	(34,709)	2,226	548,629	...	550,855
FUND BALANCES (DEFICIT)								
Beginning of year	5,000	150,038	...	155,038	2,774	(398,591)	...	(395,817)
End of year	<u>\$ (329,465)</u>	<u>\$ 449,794</u>	<u>\$...</u>	<u>\$ 120,329</u>	<u>\$ 5,000</u>	<u>\$ 150,038</u>	<u>\$...</u>	<u>\$ 155,038</u>

See Accompanying Report of Independent Auditor

SINGLE AUDIT SUPPLEMENT
REQUIRED BY OMB CIRCULAR A-133



HAGGERTY & HAGGERTY, P.A.

**CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS**

James R. Zdimal, CPA†
Vincent S. Barbone, CPA, CFE*†

American Institute of CPA
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Private Companies Practice Section

**Report of Independent Auditor
on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards**

To the School Board and President
Marion T. Academy Charter School
Wilmington, Delaware

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of and for the year ended June 30, 2006, which collectively comprise Marion T. Academy Charter School's basic financial statements and have issued our report thereon dated November 20, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marion T. Academy Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion T. Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 06-01 and 06-02.

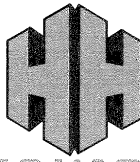
We noted certain matters that we have reported to management of Marion T. Academy Charter School in a separate letter dated November 20, 2006.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

November 20, 2006
Wilmington, Delaware



James R. Zdimal, CPA†
Vincent S. Barbone, CPA, CFE*†

HAGGERTY & HAGGERTY, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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Delaware Society of CPA†
Private Companies Practice Section

**Report of Independent Auditor
on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133**

To the School Board and President
Marion T. Academy Charter School
Wilmington, Delaware

Compliance

We have audited the compliance of Marion T. Academy Charter School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Marion T. Academy Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marion T. Academy Charter School's management. Our responsibility is to express an opinion on Marion T. Academy Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marion T. Academy Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Marion T. Academy Charter School's compliance with those requirements.

In our opinion, Marion T. Academy Charter School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-01 and 06-02.

Internal Control Over Compliance

The management of Marion T. Academy Charter School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marion T. Academy Charter School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Marion T. Academy Charter School as of and for the year ended June 30, 2006, and have issued our report thereon dated November 20, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Marion T. Academy Charter School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the School's management, School Board members, Department of Education, Office of the Governor, Office of Controller General, Office of Attorney General, Office of Management and Budget, Secretary of Finance, Office of Auditor of Accounts, Department of Finance, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.



Certified Public Accountants

November 20, 2006
Wilmington, Delaware

MARION T. ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through State of Delaware, Department of Education (DOE):			
Child and Adult Care Food Program	10.558	N/A	\$ 139,775
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 139,775
U.S. DEPARTMENT OF EDUCATION			
Passed through the Delaware Department of Education (DOE):			
Title I Grants to Local Educational Agencies (LEAs)	84.010	N/A	\$ 137,911
Special Education-Grants to States (IDEA, Part B)	84.027	N/A	95,509
Special Education-Preschool Grants (IDEA, Preschool)	84.173	N/A	1,398
Safe and Drug-Free Schools and Communities-State Grants	84.186	N/A	5,000
Freely Associated State Grant Program	84.256	N/A	83,248
Innovative Education Program Strategies	84.298	N/A	5,000
Improving Teacher Quality State Grants	84.367	N/A	53,829
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 381,895
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 521,670

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of all the federal awards received by Marion T. Academy Charter School (the "School") and is presented on the accrual basis of accounting. The School's reporting entity is defined in Note 1 to the basic financial statements. All federal awards received from federal awarding agencies and pass-through entities are included on the schedule.

MARION T. ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses unqualified opinions on the financial statements of Marion T. Academy Charter School.
2. No material reportable conditions were disclosed during the audit of the basic financial statements.
3. Two instances of noncompliance were disclosed during the audit of the financial statements.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs of Marion T. Academy Charter School are reported in Section C of this Schedule.
7. The programs tested as major programs included:
 - 84.010-Title I Grants to Local Educational Agencies
 - 84.256-Freely Associated State Grant Program
 - 84.367-Improving Teacher Quality State Grants
8. Threshold for distinguishing between Type A and B programs was \$300,000.
9. Marion T. Academy Charter School did not qualify as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None.

MARION T. ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF EDUCATION

06-01 **Freely Associated State Grant Program-CFDA No. 84.256**
Period: July 1, 2005 to June 30, 2006

Condition: Payroll expenditures and related employment costs were charged to the federal grant award; however, no time and effort reports were available to support the expenditures.

Criteria: In accordance with OMB Circular A-87, Attachment B, paragraph C.8.h: "Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by responsible officials of the governmental unit".

Effect: \$12,862 of payroll expenditures and \$1,803 of related employment costs, which represents 100% of the expenditures tested, are considered questioned costs because documentation of grant charges were not based on the time and effort reports.

\$ 14,665

Cause: The work performed by an outside consulting group was not monitored by School officials.

Recommendation: The School has written policies and procedures to provide guidance to employees and/or outside consultants administering grant activity; therefore the employees are aware of the reporting requirements. We recommend management review its policies and procedures regarding monitoring to determine the cause of the breakdown and to take necessary steps to correct the condition.

AUDITEE'S PLAN FOR CORRECTIVE ACTION

"The federal funds were properly used to pay stipends to teachers involved in curriculum mapping exercises related to school improvement. The teachers performed the services and were paid accordingly from the federal improvement grant award. Management has obtained the necessary documentation to support the questioned costs referred to above. Also, the School has revisited its policies and procedures, and has assigned the responsibility to the newly created Business Manager position of ensuring that all federal payroll expenditures are supported by time and effort reports where applicable."

MARION T. ACADEMY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF EDUCATION

06-02 **Title III Improving Teacher Quality State Grants-CFDA No. 84.367**
Period: July 1, 2005 to June 30, 2006

Condition: The School was unable to locate documentation supporting an expenditure charged to the grant award. Also, the School paid another expenditure twice.

Criteria: OMB Circular A-102, Section 20, paragraph 6: "Source Documentation" calls for the preparation of reports and the tracing of funds to a level of expenditures adequate to establish that the funds have not been used in violation of laws and regulations. In addition, Section 42, paragraph (b)(1): "Retention and Access Requirements for Records" requires that records be retained for a period of no less than three years.

Effect: We tested total expenditures of \$53,829 of which \$24,698 is considered questioned cost since no documentation was available for \$21,750 during our examination and \$2,948 was a duplicate payment.

\$ 24,698

Cause: School employees were not familiar with federal regulations requiring that records be retained for a period of no less than three years, nor were they able to detect the duplicate payment.

Recommendation: The School has written policies and procedures to provide guidance to employees and/or outside consultants administering grant activity. We recommend management review its policies and procedures regarding monitoring to determine the cause of the breakdown and to take the necessary steps to correct the condition.

AUDITEE'S PLAN FOR CORRECTIVE ACTION

"The School will reimburse the federal grant award for the duplicate payment of \$2,948. Although duplicate payments are extremely rare due to the internal controls within the Delaware Financial Management System (DFMS), the School will create additional procedures to further ensure vendors are not paid twice.

Also, the School is in the process of developing a records management system in accordance with outlined State and Federal requirements. Hopefully with the creation of a records management system, the School can better manage its records, thereby avoiding misplacement of files, etc."

MARION T. ACADEMY CHARTER SCHOOL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

B. FINDINGS-FINANCIAL STATEMENT AUDIT

05-01 **MONITORING FUNCTION**

Condition: Our procedures revealed that the School's monitoring policies and procedures were not being adhered to or followed. This was evidenced by the fact that payroll expenditures were being charged to federal grants and were not reconciled to the supporting time and effort reports.

Recommendation: We recommended that management revisit its monitoring policies and procedures to determine the cause of the breakdown, and to take the necessary steps to correct the condition.

AUDITEE'S PLAN FOR CORRECTIVE ACTION

"Marion T. Academy re-visited its monitoring policies and procedures to determine the cause of the breakdown, and took the necessary steps to correct the condition. The corrective steps include:

- 1. Requirement that all time and effort reports be created for each staff member being paid by federal grants for each pay period.*
- 2. Requirement that all time and effort reports be signed by each employee on or before each pay period.*
- 3. Requirement that all time and effort reports be collected and placed in a binder in chronological order.*
- 4. Requirement that PHRST (payroll) personnel receive copy of time and effort report with each payroll approval."*

STATUS OF FINDING

The condition remains unresolved as evidenced by the current findings and questioned costs.

MARION T. ACADEMY CHARTER SCHOOL
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

C. FINDINGS & QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF EDUCATION

05-02 **Title I Grant to Local Educational Agencies (LEAs)-CFDA No. 84.010**
Period: July 1, 2004 to June 30, 2005

Condition: Payroll expenditures and related employment costs were charged to the federal grant without being reconciled to the employee's time and effort reports.

Criteria: In accordance with OMB Circular A-87, Attachment B, paragraph C.8.h: "Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation. Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by responsible officials of the governmental unit".

Effect: \$59,540 of payroll expenditures and \$13,325 of related employment costs are considered questioned costs because documentation of grant charges were not accurately based on the time and effort reports. However, once the auditor noted the error, the School immediately reimbursed the federal grant \$72,865.32 on August 8, 2005.

Cause: The work performed by an outside consulting group was not monitored by School officials.

Recommendation: The School has written policies and procedures to provide guidance to employees and/or outside consultants administering grant activity; therefore the employees are aware of the reporting requirements. We recommended management review its policies and procedures regarding monitoring to determine the cause of the breakdown and to take necessary steps to correct the condition.

AUDITEE'S PLAN FOR CORRECTIVE ACTION

"Marion T. Academy management reviewed the policies and procedures related to grant activity and reporting and determined the cause of the breakdown and took the necessary steps to correct the condition. The corrective actions include:

- 1. Ensuring that any outside consulting group follow the policies and procedures for grant activity and monitoring closely all payroll documentation prior to approving expenditure.*
- 2. Requirement that time and effort reports be created for each staff member being paid by federal grants for each pay period.*
- 3. Requirement that all time and effort reports be signed by each employee on or before each pay period.*
- 4. Requirement that all time and effort reports be collected and placed in a binder in chronological order.*
- 5. Requirement that PHRST (payroll) personnel receive copy of time and effort report with each payroll approval."*

STATUS OF FINDING

The condition is resolved in regards to this grant award.
